

Azerbaijan's Development of a Modern, Diversified Economy

Ambassador Richard Morningstar's Remarks

American Chamber of Commerce in Azerbaijan June Luncheon

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Ambassador Morningstar: Thank you for having me here again. And thank you Ilgar for that very warm and kind introduction.

As you may have heard, I will be leaving Azerbaijan this summer. I can say that I have seen a lot of encouraging change in Azerbaijan's economy over the past two years, and more broadly, over the 19 years that I have been involved with Azerbaijan. We have seen incredible change. It is like we are on a different planet from 1995 when I first came here.

Over the course of those 19 years, I have been a witness to how courageous Azerbaijan has been in maintaining its sovereignty and independence. When I talk about the United States supporting Azerbaijan's sovereignty and independence, I mean just that: That Azerbaijan is an independent nation and that it will make its own decisions as to how it moves forward.

I would like to talk a little bit about what we have achieved together over the past few years and also provide some thoughts on the road ahead for Azerbaijan, particularly regarding its efforts to strengthen and diversify its economy.

Azerbaijan's natural resources, combined with some wise decisions by the government, have given it the ability to leapfrog its economic development ahead by decades.

Its investments in infrastructure will give it the opportunity to develop and diversify its economy in ways that will have incalculable benefits for Azerbaijan's population.

Looking back and projecting forward, I am very optimistic about Azerbaijan's long-term prospects and I am also proud of the level of economic cooperation the

United States has enjoyed with Azerbaijan during my tenure here, ranging from bilateral trade missions to reaching an agreement in substance on implementation of the U.S. Foreign Account Tax Compliance Act—known as FATCA—which I know was the subject of an AmCham committee meeting yesterday.

Just don't ask me any questions about it. It is too complicated. [laughter]

Azerbaijan has made progress in all of the areas it has targeted for economic diversification: agriculture, tourism, information and communications technology, and transportation.

Azerbaijan has also made tremendous progress in guaranteeing one of its main sources of revenue with the successful Final Investment Decision in December on the second stage of the Shah Deniz project.

This project establishes the future of Azerbaijan's energy industry in upstream production, and ensures that there will be feedstock for downstream investments in refining and petrochemical production, which will come on line in the next few years.

As SOCAR Vice President and good friend Elshad Nassirov acknowledged in his AmCham speech here a couple of months ago, the United States played an important diplomatic role in reaching the final investment decision, and we will continue to support this important project's implementation.

In the ICT sector, Azerbaijan now owns a communications satellite—supplied by a U.S. company, and is moving forward with investments to lay fiber optic cable across the country and develop the capacity to become a telecommunications hub.

We are providing assistance to Azercosmos to help it develop its next generation of communications satellites and we helped host a range of telecommunications companies here in Baku at the U.S. ICT Business Forum back in December to forge new commercial partnerships.

We are especially pleased that a U.S. company has received the contract to plan Azerbaijan's new High Tech Park, which will be an incubator for innovation and entrepreneurship. These high tech parts have shown tremendous benefits in the US and throughout the world.

The development of agriculture in Azerbaijan is crucial given that roughly 40 percent of the population is employed in that sector. As a result, the United States has invested heavily in supporting Azerbaijan's vision for the agricultural industry to complement Azerbaijan's efforts to stimulate the sector through tax incentives and financing initiatives.

Thanks to the technical assistance of the U.S. Agency for International Development, we have seen impressive gains in certain sectors like hazelnuts and pomegranates in developing export markets and improving value-chains.

And we have supported curriculum development, and I have spoken at the State Agrarian University in Ganja which is a very impressive institution.

In the tourism sector, anyone who comes to Baku sees the tremendous growth of landmark buildings, luxury hotels, and many nice restaurants in the past few years.

With new tourism destinations in the region and after hosting numerous international attractions, with the European Games coming next year, Azerbaijan is developing the tourism infrastructure necessary to compete in this global market.

Even in this area we have supported Azerbaijan's vision by providing loan guarantees and technical assistance to expand small and medium-sized enterprise lending by local financial institutions through the U.S. Overseas Private Investment Corporation, and we have fostered economic development through assistance from USAID.

Anyone who has visited the United States knows that small business development, access to finance, and entrepreneurship are the keys to tourism development.

Finally, Azerbaijan is positioning itself to become a transportation hub, which the U.S. Government supports through the New Silk Road Initiative.

Azerbaijan's impressive investments in air cargo, port, and railway facilities will soon allow more cargo to move from the Caspian and Central Asia into Europe if it can match its infrastructure with the right enabling environment.

In support of both its transportation and tourism diversification goals, we are on the verge of seeing AZAL commence direct flights between Baku and New York thanks to our cooperation and assistance on aviation safety and security. We are hoping those flights will start this coming fall.

I am just sorry I will not be able to take the first flight before I leave.

More broadly, there have been many other notable successes, including improved reliability of the pension system and a giant step forward in e-government with the introduction of the ASAN centers which really is a major step in helping to mitigate corruption at the local level.

We hope that Azerbaijan has moved a little closer to accession to the World Trade Organization, which we think is the single most important step it can take to integrate into the world economy.

Membership in the WTO is not a cure-all, but it will open up worldwide opportunities for Azerbaijani businesses, lower consumer prices, and make it easier for international firms to do business here.

Like most economies—my own included—further reforms would attract additional foreign investment and allow Azerbaijan to diversify more quickly and sustainably.

Azerbaijan has developed a great deal of credibility in the energy world by driving hard bargains, but also honoring their contracts as the law of the land. I would very much like to see this respect broaden to encompass greater sanctity of contracts in other economic spheres.

Clear rules of the game and a level playing field are crucial ingredients in developing an economy that will attract foreign investors.

One step in this direction would be the adoption of a Competition Code, which I know has been under discussion by the Parliament for the past seven years. By enacting this competition code, it will encourage great entrepreneurship and will improve the economy.

Companies also need to be able to bring in middle managers to develop their staffs to ensure their local workforces are trained and educated in some of the highly technical fields advancing in Azerbaijan.

We do this successfully in the United States. We bring in lots of people from overseas who work for our companies. If you go out to Silicon Valley, you may find that sometimes half of the employees hold green cards.

Unfortunately, in Azerbaijan, there are too many hurdles to overcome for international and local companies to bring in highly qualified managers, and this is choking back the diversified economic growth that Azerbaijan is trying to stimulate, particularly outside of the oil and gas sector.

Simply put, economic regulation is too complex to be carried out in isolation.

So we need to build on some successes in encouraging greater public-private dialogue and establish more formalized mechanisms for doing so.

For example, the State Migration Service incorporated a number of changes recommended by AmCham into its new migration code.

And I know that the Ministry of Taxes has been open to regular engagement with AmCham on the design and implementation of tax policy.

So I encourage the government to develop an even more inclusive and institutionalized approach to rulemaking: I am talking about legislative hearings, public opportunities to comment on proposed rules, and regular dialogues between the government and interested groups.

In addition, once legislation is adopted and regulations are in place, these laws and regulations must be enforced. One of the most difficult things for all economies that are going through this transition is the actual implementation of the laws that are enacted. For example, I hear regularly from businesses that the new customs code is not being enforced consistently and is stifling trade flows and entrepreneurship and these are the things that really ought to be corrected over time.

My final point on Azerbaijan's path to reaching its full potential is that the Azerbaijani government and people need to take a careful and honest look at the balance between security and a more open, democratic society.

Achieving the right balance is a difficult and dynamic process, and one that primarily concerns Azerbaijan's citizens.

However, Azerbaijan does have international obligations to promote a more pluralistic political and economic system, so Azerbaijan's international partners, such as the United States, have a responsibility to respectfully provide observations and recommendations on ways to strike the right balance should be.

I hope you will view my remarks today, and those I have made recently in press interviews, in that light.

In conclusion, Azerbaijan has made tremendous progress and I am confident that Azerbaijan can reach its full potential if it implements a few needed reforms and integrates more fully into the global economy.

I hope we can build on the successes we have had and continue to work together to advance our mutual interest in a diversified, prosperous, and stable economy.

And I assure you that—long after I leave—the U.S. Government and our Embassy here in Baku will remain a consistent partner in supporting Azerbaijan's economic vision.

We only want the best for Azerbaijan. I only want the best for Azerbaijan. And I am optimistic that, if I am still around 20 years from now, I will see the same magnitude of change in the next 20 years as I have witnessed in the last 20 years.

Thank you for your attention and I look forward to answering a few of your questions.